

UTAH YOUTH VILLAGE, INC.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
AND
FINANCIAL STATEMENTS**

June 30, 2006

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

UTAH YOUTH VILLAGE, INC.

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Registered with the Public Company
Accounting Oversight Board



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
Utah Youth Village, Inc.

We have audited the accompanying statement of financial position of Utah Youth Village, Inc. (a non-profit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of Utah Youth Village, Inc. Our responsibility is to express an opinion on these financial statements based on our audit. The summarized financial information as of June 30, 2005 and for the year then ended has been derived from the financial statements of Utah Youth Village, Inc. as of June 30, 2005 and for the year then ended and, in our report dated August 12, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Youth Village, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006 on our consideration of the internal control of Utah Youth Village, Inc. over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hansen, Barnett & Maxwell
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
August 30, 2006

UTAH YOUTH VILLAGE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006
With Summarized Financial Information as of June 30, 2005

	2006				2005
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Cash and cash equivalents	\$ 1,263,058	\$ 587,647	\$ 433,331	\$ 2,284,036	\$ 1,878,704
Contracts receivable	266,021	-	-	266,021	217,137
Promises to give, net of permanently restricted unamortized discount of \$239,564	34,113	10,000	673,782	717,895	715,866
Other receivables, net of allowance of \$30,000	320,856	-	-	320,856	181,772
Prepaid expenses	81,786	-	-	81,786	54,384
Deferred loan costs	3,712	-	-	3,712	9,250
Note receivable from unrestricted net assets - Note 6	-	-	2,391,955	2,391,955	2,279,242
Property and equipment, net of accumulated depreciation	5,152,773	-	-	5,152,773	4,090,696
Total Assets	\$ 7,122,319	\$ 597,647	\$ 3,499,068	\$ 11,219,034	\$ 9,427,051
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ 235,387	\$ -	\$ -	\$ 235,387	\$ 189,652
Unearned revenues	161,916	-	-	161,916	216,812
Accrued payroll and related expenses	242,967	-	-	242,967	276,062
Other accrued expenses	2,591	-	-	2,591	1,468
Notes payable to permanently restricted net assets - Note 6	3,461,436	-	-	3,461,436	2,471,838
Total Liabilities	4,104,297	-	-	4,104,297	3,155,832
Net Assets					
Unrestricted:					
Designated:					
Property and equipment, net of related debt	1,691,337	-	-	1,691,337	1,618,857
Endowment	333,196	-	-	333,196	319,794
Children's Perpetual Assistance Fund	45,013	-	-	45,013	25,772
Undesignated	948,476	-	-	948,476	554,156
Temporarily Restricted:					
Alpine Academy	-	411,972	-	411,972	-
Families First	-	146,239	-	146,239	-
Scholarship	-	29,214	-	29,214	31,425
Other	-	10,222	-	10,222	194,936
Permanently Restricted					
Children's Perpetual Assistance Fund	-	-	3,499,068	3,499,068	3,526,279
Total Net Assets	3,018,022	597,647	3,499,068	7,114,737	6,271,219
Total Liabilities and Net Assets	\$ 7,122,319	\$ 597,647	\$ 3,499,068	\$ 11,219,034	\$ 9,427,051

The accompanying notes are an integral part of these financial statements.

UTAH YOUTH VILLAGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
With Summarized Financial Information For the Year Ended June 30, 2005

	2006			2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support				
Contributions	\$ 392,644	\$ 684,350	\$ 40,022	\$ 1,117,016
Revenues				
Utah Department of Human Services	2,386,696	-	-	2,386,696
Payments from other agencies	2,054,118	-	-	2,054,118
Private placement	1,704,276	-	-	1,704,276
Gain (Loss) on sale of property and equipment	293,691	205	-	293,896
Investment income	55,035	846	140,374	196,255
Special events, net of expenses of \$56,282	15,044	-	-	15,044
Other	127	-	-	127
Total Revenues	6,508,987	1,051	140,374	6,650,412
Net Assets Released From Restrictions And Other Transfers	521,722	(314,115)	(207,607)	-
Total Public Support And Revenues	7,423,353	371,286	(27,211)	7,767,428
Expenses				
Program Services:				
Residential Treatment Centers				
North Kearns	294,390	-	-	294,390
South Kearns	313,869	-	-	313,869
West Jordan Home	279,623	-	-	279,623
Raymond Home	296,256	-	-	296,256
Alpine Academy - Cedar Hills	189,091	-	-	189,091
Alpine Academy - Gene Smith Home	614,989	-	-	614,989
Alpine Academy - Pine Canyon	529,885	-	-	529,885
Alpine Academy - Willow Creek	622,730	-	-	622,730
Alpine Academy - Oakridge	297,731	-	-	297,731
Alpine Academy - Cottonwood Grove	11,345	-	-	11,345
Transitions	1,760,701	-	-	1,760,701
Families First	937,498	-	-	937,498
Child Issues	25,616	-	-	25,616
Parenting	3,291	-	-	3,291
Total Program Services	6,177,015	-	-	6,177,015
Supporting Services:				
Management and general	545,613	-	-	545,613
Fund raising	201,282	-	-	201,282
Total Supporting Services	746,895	-	-	746,895
Total Expenses	6,923,910	-	-	6,923,910
Change in Net Assets	499,443	371,286	(27,211)	843,518
Net Assets, Beginning of Year	2,518,579	226,361	3,526,279	6,271,219
Net Assets, End of Year	\$ 3,018,022	\$ 597,647	\$ 3,499,068	\$ 7,114,737

The accompanying notes are an integral part of these financial statements.

UTAH YOUTH VILLAGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services										
	North Kearns	South Kearns	West Jordan Home	Raymond Home	Alpine Academy Cedar Hills	Alpine Academy Gene Smith Home	Alpine Academy Pine Canyon	Alpine Academy Willow Creek	Alpine Academy Oakridge	Alpine Academy Cottonwood Grove	
Salaries	\$ 142,000	\$ 164,123	\$ 141,381	\$ 152,478	\$ 103,424	\$ 263,086	\$ 227,309	\$ 270,341	\$ 132,882	\$	264
Employee benefits	35,835	30,076	32,968	31,515	16,985	41,153	32,225	37,586	21,924		-
Payroll taxes	13,667	15,914	13,170	14,713	12,310	25,337	22,695	25,648	11,807		26
Total Salaries and Related Expenses	191,502	210,113	187,519	198,706	132,719	329,576	282,229	333,575	166,613		290
Professional fees	8,907	13,039	961	2,006	2,575	19,893	20,046	26,939	10,306		-
Payments to Treatment Parents	-	-	-	-	-	-	-	-	-		-
Supplies	5,349	4,710	4,344	5,077	1,984	5,961	5,329	9,694	3,016		16
Payments to youth	5,680	6,408	4,317	6,791	88	2,692	3,383	3,803	1,149		-
Youth school	2	19	185	110	2,760	32,954	22,048	40,782	14,778		-
Youth travel	68	22	22	36	-	960	42	32	29		-
Youth entertainment	1,682	2,769	1,836	2,293	30	5,025	4,034	4,041	2,271		-
Food	17,940	16,864	12,201	19,690	3,500	21,614	18,804	22,926	10,180		-
Conferences and workshops	1,927	1,795	2,182	1,746	2,738	9,197	9,288	9,288	5,627		(5)
Vehicle and travel	9,167	11,307	8,442	7,334	4,259	17,939	17,753	19,497	9,090		1,062
Printing and publications	587	587	631	611	788	2,080	2,121	1,999	1,503		42
Telephone	3,806	4,123	3,307	4,167	4,837	9,233	9,574	10,713	4,036		2,394
Utilities	6,040	6,040	5,553	6,502	3,745	7,255	6,727	9,586	3,131		-
Purchase of small equipment	2,484	3,197	5,884	3,598	1,290	7,830	7,032	6,781	9,414		308
Building and equipment maintenance	9,042	6,383	3,482	6,564	5,750	27,378	13,139	17,007	3,443		2,726
Insurance	11,571	11,383	7,835	11,192	11,458	18,557	21,381	17,935	8,672		36
Postage	394	458	362	431	509	1,532	1,646	1,584	687		1
Bank charges	370	43	4,442	111	57	212	406	134	3,748		3,712
Advertising	707	196	127	347	89	996	1,536	996	567		-
Interest	-	-	3,785	1	-	40,108	40,108	40,108	20,054		-
Grants and awards	33	33	33	33	47	365	365	365	242		-
Bad debts	-	-	-	-	-	1,892	1,892	1,892	1,892		-
Dues, fees and licenses	1,059	1,076	490	1,060	618	2,224	2,218	2,253	1,258		242
Total Expenses Before Depreciation	278,317	300,565	257,940	278,406	179,841	565,473	491,101	581,930	281,706		10,824
Depreciation of Buildings and Equipment	16,073	13,304	21,683	17,850	9,250	49,516	38,784	40,800	16,025		521
Total Expenses	\$ 294,390	\$ 313,869	\$ 279,623	\$ 296,256	\$ 189,091	\$ 614,989	\$ 529,885	\$ 622,730	\$ 297,731	\$	11,345

The accompanying notes are an integral part of these financial statements.

UTAH YOUTH VILLAGE, INC.

Supporting Services

The accompanying notes are an integral part of these financial statements.

UTAH YOUTH VILLAGE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006
With Summarized Financial Information for the Year Ended June 30, 2005

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	\$ 843,518	\$ 215,672
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	263,184	207,274
(Gain) loss on disposition of property and equipment	(286,287)	(9,411)
Realized (gain) loss on investments	(7,609)	89,342
Changes in assets and liabilities:		
Contracts receivable	(48,884)	33,506
Promises to give	(2,029)	(93,250)
Other receivables	(139,084)	110,937
Other assets	(27,402)	(5,426)
Accounts payable	45,735	(45,501)
Payroll taxes payable	(33,095)	(8,302)
Unearned revenue	(54,896)	51,014
Other accrued expenses	1,123	59,964
Net Cash From Operating Activities	554,274	605,819
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	365,989	90,875
Purchase of property and equipment	(323,794)	(1,207,864)
Purchase of investments	(1,547,678)	(2,129,045)
Proceeds from sale of investments	1,555,474	2,083,371
Net Cash From Investing Activities	49,991	(1,162,663)
Cash Flows From Financing Activities		
Payment of loan costs	(6,337)	(9,250)
Proceeds from note payable	-	196,850
Principal payments of note payable	(192,596)	(4,254)
Net Cash From Financing Activities	(198,933)	183,346
Net Increase in Cash	405,332	(373,498)
Cash at Beginning of Period	1,878,704	2,252,202
Cash at End of Period	\$ 2,284,036	\$ 1,878,704
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest to outside parties (net of \$28,888 capitalized)	\$ 10,522	\$ 8,875
Supplemental Schedule of Noncash Investing and Financing Activities:		
Property and equipment acquired in exchange for note payable	\$ 1,069,481	\$ -

The accompanying notes are an integral part of these financial statements.

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations — Utah Youth Village, Inc. (the Organization) is a Utah not-for-profit corporation that operates:

- Teaching Family Group Homes
- Transitions
- The Families First Program
- Parent Empowerment Classes
- Assessment Services
- Outpatient Therapy

These programs are provided in an effort to change the lives of youth and families who are in need. The Organization uses as its treatment system, "The Teaching-Family Model," which allows the youth receiving treatment from the Organization to be in a family setting and to learn the skills needed to live a normal and productive life. It is the mission of the Organization to provide treatment to and support for troubled, ungovernable or delinquent youth and their families.

The Organization administers the Children's Perpetual Assistance Fund (CPAF), an endowment established to generate funds to support the Families First Program. The principal amount of contributions to the CPAF is maintained in perpetuity, while the earnings are used for the Families First Program.

The financial statements include all of the accounts of Utah Youth Village, Inc. and all of its program locations. The Organization follows generally accepted accounting principles for voluntary health and welfare organizations. The following is a summary of significant accounting policies.

Financial Statement Presentation — The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization presents a statement of cash flows.

Cash and Cash Equivalents — The Organization considers all investments with original maturities of three months or less to be cash equivalent. As of June 30, 2006, the Organization had cash deposits of \$2,191,939 which exceeded federally insured limits.

Contracts Receivable — Revenue from the Utah Department of Health, other state agencies, and other third party payors is recognized on the accrual basis whereby revenue is recognized as services are provided. The Organization then bills third party payers in accordance with the terms of respective contracts and considers all receivables collectible. Contracts receivable represent uncollateralized receivables from the Utah Department of Human Services and other state agencies for services.

Other Receivables — Other receivables represent amounts owing from individuals or third parties for program services provided. All receivables are uncollateralized.

Allowance for Uncollectible Accounts — An allowance for uncollectible accounts is estimated and recorded based on the Organization's historical bad debt experience, and based on management's judgment.

Property and Equipment — Expenditures for property and equipment in excess of \$1,000 are capitalized. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Contributions and Donated Assets — Contributions received are recorded as unrestricted or temporarily restricted public support depending on the existence or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon changes in donors' restrictions or satisfaction of the time or purpose restrictions. All contributions are considered to be available for unrestricted use in the appropriate time period, unless specifically restricted by the donor.

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet these criteria are not recognized. Donated assets and contributed services are recognized at their fair market value when the value exceeds \$1,000. A substantial number of volunteers have donated significant time in program services and in maintenance of the Organization's offices and group homes.

Promises to Give — Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unearned Revenue — The Organization records amounts received prior to the related service being provided as unearned revenue. When the related services are performed, such amounts are recognized as revenue. At June 30, 2006, the Organization had received \$161,916 in unearned revenue.

Advertising — The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the year ended June 30, 2006 was \$11,603.

Income Taxes — The Organization is a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. No provision for federal or state income taxes has been made in the accompanying financial statements as all of the Organization's current activities are exempt from income tax.

Expense Allocations — Certain expenses for items that are shared by programs of Utah Youth Village, Inc. are allocated among its various programs. These expenses include certain salaries and related costs of personnel, office expenses, liability insurance, travel, supplies, and informational materials. Allocations of large dollar items such as salaries and office expenses are based on time studies. Other items are allocated on a consistent basis as determined by management.

Fund Raising Costs — The Organization has adopted Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*. SOP 98-2 allows allocation of joint costs (costs allocable among fund raising and support and program services), only if certain criteria are met.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Fair Value of Financial Instruments — The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at June 30, 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

Summarized Comparative Financial Information — The accompanying financial statements include certain summarized financial information as of June 30, 2005 and for the year then ended in total but not by net asset class. Such information does not include sufficient detail or disclosures to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005 from which the summarized information was derived.

Reclassification — Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 financial statement classification. The reclassification had no effect on the change in net assets reported for the year ended June 30, 2005.

NOTE 2 – INVESTMENTS IN MARKETABLE SECURITIES

The Organization maintains investment accounts with a brokerage. As of June 30, 2006, all amounts invested with the brokerage were held in money market funds. Due to the short-term nature of the money market funds, the investments have been classified as cash equivalents in the accompanying statement of financial position.

The following schedule summarizes revenues from investments for the year ended June 30, 2006:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income:				
Interest and dividends	\$ 29,916	\$ 846	\$ -	\$ 30,762
Gain from sale of investments	7,591	205	-	7,796
Total	\$ 37,507	\$ 1,051	\$ -	\$ 38,558

NOTE 3 – PROMISES TO GIVE

Unconditional Promises to Give — During the year ended June 30, 2006, donors to the Organization made written and verbal promises to give recognized as contribution revenue totaling \$10,110, of which \$30 was received as of June 30, 2006. Of the total promises to give receivable as of June 30, 2006, \$893,904 was restricted by donors for the Children's Perpetual Assistance Fund. Promises to give have been discounted to the present value assuming their respective terms, and discount rates ranging from 5% to 6.36% compounded annually. Unconditional promises to give are scheduled to be collected as follows:

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Due in less than one year	\$ 80	\$ 10,000	\$ -	\$ 10,080
Due in one to five years	-	-	-	-
Due in more than five years	53,474	-	893,905	947,379
	53,554	10,000	893,905	957,459
Less: Unamortized discount	(19,441)	-	(220,123)	(239,564)
Net unconditional promises to give	\$ 34,113	\$ 10,000	\$ 673,782	\$ 717,895

The discounted unconditional promises to give have been recorded in the accompanying statement of financial position as promises to give, net of unamortized discount, and as contribution revenues in the accompanying statement of net assets. Promises to give have been distinguished between contributions received for each net asset class in accordance with donor imposed restrictions. The discount will be amortized as contribution revenue over the lives of the various promises to give.

NOTE 4 – OTHER RECEIVABLES

At June 30, 2006, the Organization had other receivables which included the following:

Sales tax receivable	\$ 2,539
Due from private placements and other agencies	348,717
Deposits from foster parents	(400)
Allowance for doubtful accounts	(30,000)
Total	\$ 320,856

NOTE 5 – PROPERTY AND EQUIPMENT

At June 30, 2006, the cost of property and equipment was as follows:

	Estimated Useful Lives	Amount
Land	-	\$ 787,443
Buildings and improvements	10 - 40 years	4,132,794
Development costs	20 - 30 years	307,678
Furniture, fixtures, and equipment	3 - 10 years	595,490
Vehicles	3 - 5 years	237,040
Construction in process	-	655,056
Total Cost		6,715,501
Less: Accumulated depreciation		(1,562,728)
Net Property and Equipment		\$ 5,152,773

Depreciation expense, computed using the straight-line method, for the year ended June 30, 2006, was \$251,309. Depreciation and amortization on the accompanying statement of cash flows includes amortization of loan costs of \$11,875.

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CHILDREN'S PERPETUAL ASSISTANCE FUND, NOTES RECEIVABLE, AND NOTES PAYABLE

During the year ended June 30, 2004, the Organization received a donation of \$2,248,217 for the Children's Perpetual Assistance Fund, a permanently restricted endowment fund wherein earnings from investment of the donated funds are required to be used for the operation of the Families First Program. In addition, the Organization obtained verbal agreement and approval from the donor's family to invest the proceeds from the donation in the Alpine Academy real estate, which is an unrestricted asset of the Organization. This agreement has allowed the Organization to fund a substantial portion of the purchase and construction of the Alpine Academy without incurring additional external debt and interest expense. Under the terms of the agreement, the Organization is obligated to repay the amount borrowed from the permanently restricted endowment fund plus interest at 6% over 30 years. The funds borrowed to construct the Alpine Academy are being paid from unrestricted net assets to permanently restricted net assets of the Organization. This transaction was designed to ensure the principal amount of the donation will be invested to benefit the Families First Program as stipulated by the donor under the terms of the Children's Perpetual Assistance Fund. As of June 30, 2006, the balance of the note payable, including related accrued interest, and its respective note receivable was \$2,391,955. Changes in the note receivable/payable during the year are as follows:

Balance as of June 30, 2005	\$ 2,279,242
Principal payments from unrestricted net assets	(40,067)
Borrowings by unrestricted net assets	152,780
<hr/>	
Balance as of June 30, 2006	\$ 2,391,955

During the year ended June 30, 2006, the Organization entered into a construction loan with a financial institution to build two additional Alpine Academy homes. The total amount available under the loan agreement is \$1,240,000. As of June 30, 2006, the Organization had borrowed \$965,481 on the construction loan. Subsequent to year end, the Organization drew an additional \$104,000 to pay for construction completed and capitalized in June 2006. This amount is included in the total note payable of \$1,069,481. Following the completion of the construction in the fall of 2006, the loan was converted into a conventional 15 year note payable at a fixed interest rate of 7.5% per annum. During the year ended June 30, 2006, \$28,888 of interest was incurred on the note payable. This interest has been capitalized as part of the cost of the building construction. The note is summarized as follows at June 30, 2006:

Construction note payable to a bank; interest rate based on 30-day LIBOR plus 2% (5.35% as of June 30, 2006); total amount available under note is \$1,240,000; interest is due monthly; principal and remaining interest due February 2007; secured by land and buildings	\$ 1,069,481
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NOTE 7 – RESTRICTIONS OF NET ASSETS

Certain unrestricted net assets have been designated by the Organization's Board for various purposes. These designations include the investment of net assets in property and equipment, net of related debt. These net assets therefore cannot be used for payment of program expenses. Net assets have also been designated for an endowment, the income from which may be used to support programs, but until the designation is changed, the net assets in the endowment may not be used for payment of program

UTAH YOUTH VILLAGE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

expenses. The Board has also designated certain net assets for the Children's Perpetual Assistance Fund, but the net assets designated by the Board have not been permanently restricted by donors.

Temporarily restricted net assets consist of donations received with stipulations that they be used in support of the Alpine Academy, Families First, Scholarships, and other programs. Temporarily restricted net assets include interest earned on the note receivable from the Alpine Academy by the permanently restricted Children's Perpetual Assistance Fund.

Permanently restricted net assets consist of donations received for the Children's Perpetual Assistance Fund, a permanently restricted endowment fund wherein earnings from investment of the donated funds are required to be used for the operation of the Families First Program.

NOTE 8 – CONTRACT REVENUE

The Organization had contracts with the Utah Department of Human Services, the State of Utah Judicial branch and various other mental health agencies including agencies and school districts from other states. These contracts were for the purpose of providing residential and educational services, training and consultation to Therapeutic Foster Homes and intervention directly for troubled youth and their families. A majority of the contracts designate the Organization as a service provider allowing for reimbursement of expenses related to providing the services under the contracts. All contracts have been renegotiated and renewed for the year ending June 30, 2006.

NOTE 9 – RETIREMENT PLAN

The Organization has a profit sharing plan under which the Organization must contribute 3% of eligible employees' compensation to the Plan. In addition, the Organization may contribute an additional amount determined by the Organization at its sole discretion. The employer contribution under these plans for the year ended June 30, 2006 was \$195,502.

NOTE 10 – ECONOMIC DEPENDENCY

The Organization received a substantial amount of its revenue (approximately 54%) from governmental grants and service contracts. The Organization has been and is continuing to seek new sources of funding to support their programs and activities. The loss of support from any major source of funds could have an adverse effect on the Organization's programs and activities.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2006, the Organization capitalized \$1,051,081 for construction work performed by a company whose president is a board member of the Organization. At June 30, 2006, the Organization owed this Company \$103,950, which was included in accounts payable.

A member of the Organization's board is employed by the custodian of the Organization's investments. The investments at June 30, 2006 totaled \$957,607 and have been classified as cash equivalents in the accompanying statement of financial position.

HANSEN, BARNETT & MAXWELL

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Registered with the Public Company
Accounting Oversight Board



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Utah Youth Village, Inc.

We have audited the financial statements of Utah Youth Village, Inc. as of June 30, 2006 and for the year then ended, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting of Utah Youth Village, Inc. in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Utah Youth Village are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Trustees, management, and funding agencies.

Hansen, Barnett & Maxwell
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
August 30, 2006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON STATE LEGAL COMPLIANCE

The Board of Trustees
Utah Youth Village, Inc.

We have audited the financial statements of Utah Youth Village, Inc., a nonprofit corporation, for the year ended June 30, 2006, and have issued our report thereon dated August 30, 2006. As part of our audit, we have audited Utah Youth Village, Inc.'s compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. Utah Youth Village, Inc. received the following major assistance programs from the State of Utah:

Residential and Mental Health Services (Department of Human Services)
Family Preservation Services (Third and Fourth District Juvenile Courts)

The management of Utah Youth Village, Inc. is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Utah Youth Village, Inc.'s compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Utah Youth Village, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

Hansen, Barnett & Maxwell
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
August 30, 2006